LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NO. U-34200-A

SOUTHWESTERN ELECTRIC POWER COMPANY, EX PARTE

Docket No. U-34200 In re: Review of Possible Modifications to SWEPCO's Formula Rate Plan as Extended in Docket No. U-32220

(Decided at the Business and Executive Session held April 19, 2017)

Overview

This matter was before the Louisiana Public Service Commission ("LPSC" or "Commission") for consideration of the Uncontested Stipulated Settlement entered into on April 7, 2017 by Commission Staff ("Staff") and Southwestern Electric Power Company ("SWEPCO"). The Uncontested Stipulated Settlement modifies the terms of SWEPCO's formula rate plan ("FRP") for the test years 2015 and 2017[1], as extended in LPSC Order No. U-32220-C, dated August 26, 2016. In addition to the other terms and conditions contained therein, the Uncontested Stipulated Settlement provides for a reduction in SWEPCO's bandwidth midpoint return on common equity ("ROE") from 10.0% to 9.8% and a midpoint reset for the test year ending December 31, 2017. The Uncontested Stipulated Settlement, along with the agreed upon FRP (Appendix A) and service quality improvement plan (Appendix B), is attached hereto as **Attachment "A"**.

Commission Authority

Article IV § 21 of the Louisiana Constitution of 1974 provides the Commission with the following authority to regulate common carriers and public utility and to adopt and enforce necessary rules and regulations:

> *The commission shall have all power and authority to regulate common carriers and public utilities and have such other regulatory authority as provided by law. It shall adopt and enforce reasonable rules, regulations and procedures necessary for the discharge of its duties, and shall have other powers and perform other duties as provided by law.*

Consistent with the above, the Commission exercises Constitutionally-granted, plenary jurisdiction over public utilities and common carriers including jurisdiction over electric rates and services. The breadth of the Commission's authority has been consistently affirmed by the

[1] Test year 2016 was skipped pursuant to Order No. U-32220-C since it would have resulted in multiple rate changes in one year.

Louisiana Supreme Court on numerous occasions. *See*, e.g., *Cajun Electric Power Cooperative, Inc. v. LPSC*, 544 So.2d 362 (La. 1989); *South Central Bell Telephone Co. v. LPSC*, 412 So.2d 1069, 1070 (La. 1982); *Central Louisiana Electric Co. v. LPSC*, 373 So.2d 123, 128 (La. 1979); *Louisiana Consumers' League Inc. v. LPSC*, 351 So.2d 128, 131 (La. 1977).

Background and Procedural History

SWEPCO, an affiliate company of American Electric Power ("AEP"), serves approximately 527,000 retail customers in Louisiana, Arkansas and Texas, with approximately 229,000 of those retail customers located in Louisiana. SWEPCO is regulated under a Commission-approved FRP that was most recently extended through 2017 in Docket No. U-32220. As part of Order No. U-32220-C dated August 26, 2016 approving the extension, Staff was required to review and recommend any necessary modifications for the remainder of the extension, which is the impetus for the current docket.

This docket was published in the Commission's Official Bulletin dated July 29, 2016 and the intervention period elapsed without intervention. Administrative Law Judge ("ALJ") Joy Guillot held a status conference October 13, 2016 resulting in a procedural schedule that contemplated a Commission vote on a deferral of certain environmental expenses prior to full resolution of the docket. Commission Order No. U-34200 granting the aforementioned deferral was issued December 21, 2016. The procedural schedule was thereafter continued once in order to allow the parties to reach an uncontested stipulated settlement on the remaining issues. The parties filed a *Proposed Uncontested Stipulated Settlement and Joint Motion to Schedule Stipulation Hearing* on April 7, 2017.

The Uncontested Stipulated Settlement was admitted into the record at the stipulation hearing held April 17, 2017 pursuant to Rule 6 of the Commission's Rules of Practice and Procedure and supported by the hearing testimony of SWEPCO witness Thomas P. Brice and Staff Witness Matthew I. Kahal. There were no other parties to this proceeding. The matter was placed on the Commission's April 19, 2017 B&E Agenda for consideration.

Commission Consideration

On motion of Commissioner Campbell, seconded by Commissioner Francis, and unanimously adopted, the Commission voted to amend the date on which SWEPCO shall file a full base rate case from December 31, 2019 to December 31, 2018 and approve all other terms of the Uncontested Stipulated Settlement filed on April 7, 2017 (modifying the terms of SWEPCO's FRP for the test years 2015 and 2017). Counsel for SWEPCO represented that SWEPCO agreed to the new deadline for the full base rate case.

IT IS THEREFORE ORDERED THAT:

1. The Commission adopts the Uncontested Proposed Stipulated Settlement Agreement attached hereto as **Attachment "A"** with one modification as set forth in paragraph 2 below.
2. SWEPCO shall file a full base rate case no later than December 31, 2018[2].
3. This Order is effective immediately.

BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA

May 18, 2017

/S/ SCOTT A. ANGELLE
DISTRICT II
CHAIRMAN SCOTT A. ANGELLE

/S/ ERIC F. SKRMETTA
DISTRICT I
VICE CHAIRMAN ERIC F. SKRMETTA

S/ FOSTER L. CAMPBELL
DISTRICT V
COMMISSIONER FOSTER L. CAMPBELL

/S/ LAMBERT C. BOISSIERE
DISTRICT III
COMMISSIONER LAMBERT C. BOISSIERE, III

EVE KAHAO GONZALEZ
SECRETARY

/S/ MIKE FRANCIS
DISTRICT IV
COMMISSIONER MIKE FRANCIS

[2] The Uncontested Stipulated Settlement required SWEPCO to file a full base rate case no later than December 31, 2019.

LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET NO. U-34200

SOUTHWESTERN ELECTRIC POWER COMPANY
EX PARTE

In Re: Review of Possible Modifications to SWEPCO's Formula Rate Plan as Extended in Docket No. U-32220

SETTLEMENT TERM SHEET

This Agreement is entered into between the Louisiana Public Service Commission ("LPSC" or "Commission") Staff (the "Staff"), and Southwestern Electric Power Company ("SWEPCO" or "Company") for the purpose of modifying SWEPCO's Formula Rate Plan ("FRP"), which was most recently amended by Commission Order No. U-32220 dated July 14, 2014 and extended through test year 2017 in Order No. U-32220-C, dated August 26, 2016. There are no other parties to this proceeding.

The provisions of this extended FRP for the 2015 and 2017 test years provides an administratively efficient methodology for promptly adjusting rates to reflect cost of service, thus providing benefits for Louisiana ratepayers.

The parties agree to propose the following settlement to the Louisiana Public Service Commission (the "LPSC" or "Commission"):

I. FORMULA RATE PLAN ALTERNATIVE REGULATION

1. SWEPCO shall be allowed to implement a Formula Rate Plan ("FRP") surcharge rider to annually adjust its rates to reflect changes in its costs and revenues.

2. The FRP is intended to simulate traditional cost of service regulation, but on an expedited and administratively simplified basis.

3. The FRP surcharge rider shall be extended for a period of three years, with the first rate change, if any, based on a test year ending December 31, 2015 effective for bills rendered on and after the first billing cycle of May 2017. Since the 2015 test year filing will be made in 2017, there will be no 2016 test year filing. A subsequent rate change, if any, will be based on the test year ending December 31, 2017 with the rate change becoming effective August 1, 2018.

[redacted]

4. In the event the FRP is extended, Staff and SWEPCO will proceed under this FRP, but subject to the appropriate modification as approved by the Commission. The FRP may be renewed by the Commission, subject to agreement by SWEPCO, for subsequent periods. In the event that the FRP is not renewed, then the FRP surcharge rider last in effect will remain in effect until base rates are reset by the Commission. In the event the FRP is not renewed, SWEPCO will file a full base rate case no later than December 31, 2019.

5. The FRP shall operate as follows:

   a. For the first review period, which will set rates effective with the first billing cycle of May 2017, SWEPCO shall submit its computation of the Company's revenue requirement on or before May 1, 2017, based on the test year ending December 31, 2015, reflecting appropriate adjustments applicable to the SWEPCO Power Plants Environmental Regulatory Compliance Projects ("ERCP") as discussed below. The filing date shall be on or before the first billing cycle for May 2017 and the rate effective date shall be the first billing cycle of May 2017 in light of the fact that the 2015 test year normally would have been filed on April 1, 2016.

   b. For the 2017 test year, SWEPCO shall file a report with the Commission on or before April 1, 2018, containing a computation of the Company's revenue requirement based on the immediately preceding calendar year, hereinafter referred to as the test year. The annual filing shall be referred to as the "annual FRP report."

   c. The FRP, for the full term of the FRP extension, will provide for an authorized, but not a guaranteed, Return on Common Equity ("ROE") at the midpoint of the ROE bandwidth (9.8%).

   d. The regulatory liability associated with the Turk AFUDC is scheduled to be fully amortized no later than the billing cycle of February 2018. After the regulatory liability has been fully amortized and returned to customers through rate credits, SWEPCO agrees to supply workpapers and documentation to Staff demonstrating that the entire amortization has been returned and credited to ratepayers (as intended by the Commission).

[This space intentionally left blank.]

e. In the first review period which will set rates effective for bills rendered on and after the first billing cycle of May 2017, rates shall be established to allow the Company the opportunity to recover its revenue requirement using 60% of the difference between the 2015 test year earned return and the midpoint (authorized) ROE set forth in paragraph 5(c) with the costs of ERCP recovered outside of the 60% earnings sharing mechanism and at the level necessary to provide revenue equal to the revenue requirement (i.e., return on net investment, associated income and property taxes, depreciation expense and amortization of the regulatory asset) associated with the ERCP using the midpoint (authorized) ROE set forth in paragraph 5c herein above. For purposes of calculating the earned return in test years 2015 and 2017, the recovery of costs associated with the Shreveport Water Project, discussed in paragraph k below, shall be outside of the 60% earnings sharing mechanism.

f. Pursuant to paragraph 5a, the Company will submit on or before the first billing cycle of May 2017 the computation of the revenue requirement consistent with the provisions of this term sheet and provide the corresponding rate change pursuant to the provisions of the term sheet. However, the corresponding annual rate change for the 2015 test year will be set at a not-to-exceed amount of $36.2 million effective with the first billing cycle of May 2017. This base rate increase will be offset by the removal, from SWEPCO Fuel Adjustment Clause as set forth in paragraph 5l, of transmission costs associated with serving the Valley District of SWEPCO such that the estimated net rate impact is estimated at $31 million.

g. For the first review period (2015 Test Year), Staff will review the Company's revenue requirement calculations provided pursuant to this term sheet. The Company's 2015 revenue requirement will be the lesser of $36.2 as discussed in paragraph 5f or the Staff identified revenue requirement based on their review. The net rate impact is currently estimated to be approximately $31 million, but could be less depending on the outcome of Staff's review.

h. For the review of the 2017 test year filed no later than April 1, 2018, rates shall be established to allow the Company the opportunity to recover its revenue requirement using the midpoint (authorized) ROE set forth in paragraph 5c herein above. Any changes to the levels of authorized FRP revenues shall be allocated to each applicable rate schedule based on an equal percentage of applicable base revenue for both the 2015 and 2017 test years.

[This space intentionally left blank.]

i. In Order No. U-34200 dated December 21, 2016, the Commission approved the Uncontested Proposed Stipulated Partial Settlement Agreement that provides for the deferral of the full weighted average cost of capital (WACC) return on the ERCP net plant investment from the time the applicable retrofit investment was placed in service, as well as depreciation expense, and related property and income taxes (Deferred Asset) for the Louisiana jurisdictional share of the ERCP until such time the ERCP are included in the rates of the Company. The ERCP includes the retrofit projects at the Company's Flint Creek Power Plant and the Welsh Power Plant, Units No.1 and 3. The revenue requirement associated with ERCP plant net investment and the Deferred Asset will be included in rates with the first billing cycle of May 2017 and the Deferred Asset will be included in rate base while it is amortized and recovered over a fifteen year period starting May 1, 2017. For the 2015 test year, SWEPCO will include an estimate of the incremental fixed O & M in the cost of service, subject to Staff review of the estimate. For the 2017 test year, the ERCP-related fixed O & M would be treated like other production fixed O & M in the cost of service. The rate recovery outlined in this paragraph is subject to refund pending the outcome of the prudence review in Docket No. U-34369.

j. The Parties agree that the Company shall file a depreciation study by October 1, 2017 addressing the depreciation rates for its coal-fired generating plants including the Flint Creek and Welsh power plants but excluding the Turk Plant. The study will evaluate current depreciation rates to determine if the rates require any adjustment to ensure proper recovery of the applicable net book value for these plants. Staff shall review the depreciation study and complete the review by 1/31/18. Any changes deemed necessary by the study to the applicable depreciation rates which are approved through staff's review will be implemented as part of the 2017 test year that will be filed on April 1, 2018.

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k. Consistent with the terms of the Uncontested Proposed Partial Stipulated Settlement Agreement to Renew and Extend the Service Quality Improvement Plan ("Partial Settlement") approved by the LPSC on February 24, 2016, and memorialized in Order No. U-32220-A dated March 23, 2016, the rate recovery will begin with the May 1, 2017 billing cycle for the LPSC jurisdictional incremental operations and maintenance expenses associated with the Shreveport Water Project that have been incurred during the period from the date of LPSC approval of the deferral on March 23, 2016 through December 31, 2016 and deferred for future recovery pursuant to the Partial Settlement. The August 1, 2018 rate change shall include the 2017 test year actual Project costs net of the rate increase implemented on May 1, 2017. In addition, for 2018, SWEPCO may defer the actual Project costs incurred. The cost recovery for this deferred balance at January 1, 2019 shall take place in a subsequently extended FRP or a future base rate case in a manner to be determined by the Commission. The costs eligible for recovery under this paragraph shall be limited to the LPSC jurisdictional, prudently-incurred out of pocket contractor payments directly related to the Project, as documented by SWEPCO, and shall not include SWEPCO internal or overhead costs.

l. SWEPCO shall include in the 2015 test year cost of service and rates that will be effective with the first billing cycle of May 2017 the Louisiana jurisdictional share of the third party transmission charges incurred to serve the Valley District of SWEPCO. Moreover, these charges no longer will be recovered through the SWEPCO Fuel Adjustment Clause as of the first billing cycle of May 2017. For the 2017 test year, these transmission charges are part of the cost of service and will be subject to the normal 2017 test year review.

m. SWEPCO budget data indicate an unusually large increase in certain Southwest Power Pool (SPP) net charges (i.e., net of SWEPCO SPP revenue) for 2017 as compared to 2015, primarily related to the SPP base plan. This includes charges under the following SPP accounts: 4561008, 4561009, 4561010, 5650009, 5650013, 5650014, and 5650046, . Due to this unusual increase and the lengthy regulatory lag from the 2015 test year, SWEPCO is authorized to defer for future recovery the difference between the 2017 and 2015 net SPP charges for the above accounts (LPSC jurisdictional amount). This authorized deferred expense shall not exceed $4.5 million. The deferred expense shall be amortized over four years and the deferred unamortized balance will accrue carrying charges at the Company's weighted average cost of capital, and the annual amortized amount will be included in the scheduled August 2018 rate change under this FRP. For purposes of determining the amount of SPP net expenses for the accounts listed above to include in the 2017 test year, the actual net SPP expenses will be included in the Company's 2017 cost of service calculations, thereby ignoring the deferral in the calculation.

n. SWEPCO shall file annual FRP reports with the Commission no later than May 1, 2017 and April 1, 2018. These reports will be docketed and published for intervention. Upon the close of the intervention period, SWEPCO shall provide to the Parties all workpapers and supporting data relied upon to develop the reports. This shall include identification and explanation of all adjustments to the test year per books cost of service data. The Parties may request clarification and additional supporting data. For the 2017 and 2015 test years the Parties shall have 91 days after the filing to review each report to ensure that it complies with the requirements of this stipulation and settlement, and to propose any corrections or other adjustments to the filing. SWEPCO shall have 15 days to review and resolve any differences between the original filing and the Parties' proposed corrections and other adjustments in order to adjust its rate schedules prior to the rate change implementation effective for bills rendered on and after the first billing cycle for the month of the rate change, if any, as described above Any disputed issues not resolved between SWEPCO and the Parties on or before the end of this 15-day period shall proceed to administrative hearings pursuant to a schedule set forth by the assigned Administrative Law Judge to resolve the disputed issues.

o. Changes to the level of FRP revenues, if any, shall become effective for bills rendered on or after the first billing cycle the month specified above in the year the annual FRP report is filed. Should any disputed issues arise as set forth above, SWEPCO shall file new rate schedules with the Commission within 15 days after receipt of the Commission's final ruling should a further rate adjustment be necessary. Within 60 days after the receipt of the Commission's final ruling, SWEPCO shall determine the amount of the adjustment to the FRP Rider, if any, together with interest at the same Commission-approved interest rate applicable to SWEPCO's Fuel Adjustment Charge.

p. The FRP report quantifications shall be adjusted to account for each of the ratemaking adjustments detailed in Appendix A, attached to this Settlement Term Sheet, as well as any LPSC Orders from the settlement of prior test years that would impact the FRP report quantifications. Rate base quantifications shall be based upon December 31 balances for each test year except as adjusted by Appendix A. Operating income quantifications shall be based upon revenues and expenses for each test year except as adjusted by Appendix A. The calculated rate of return on common equity shall be based on average capital balances and debt and preferred equity costs for each test year except as adjusted by Appendix A.

q. **Environmental Cost Related Revenue Requirement** - If during the term of this FRP, there is a change in the law or regulation related to environmental issues or environmental compliance that increases the costs to SWEPCO, SWEPCO will have the right to request recovery of the prudent level of capital-related costs outside the FRP sharing mechanism. Nothing in this provision shall constitute pre-approval of the recovery of such increased costs.

r. **Energy Efficiency Related Revenue Requirement** - If during the term of this FRP, there is a change in law or regulation that adopts measures designed to increase the efficient use of electric energy by SWEPCO's Louisiana retail customers that results in increased costs to SWEPCO, SWEPCO shall have the right to request the recovery of the prudent level of such costs outside the FRP sharing mechanism. Nothing in this provision shall constitute pre-approval of the recovery of such increased costs.

6. During the term of this FRP, SWEPCO shall not file a base rate increase and the Commission shall not initiate a base rate reduction, except as specifically noted herein. In the event SWEPCO experiences extraordinary increases or decreases in costs having a net annual revenue requirement impact exceeding $5 million on a Louisiana retail jurisdictional basis, then either the Company or the Commission will address the ratemaking effects of such an extraordinary cost increase or decrease in the annual FRP proceedings unless the Company or the Commission initiates a separate proceeding. Such extraordinary increases or decreases in costs shall be limited to an event or events of force majeure beyond the reasonable and direct control of SWEPCO, including natural disaster, damage or unforeseeable loss of generating capacity, changes in regulation ordered by a regulatory body or other entity with appropriate jurisdiction, and orders or acts of civil or military authority. Nothing in this paragraph is intended to restrict in any way the Commission from initiating a process or docket to implement a change to SWEPCO's cost of service or rates pertaining to a statutory change in state or federal corporate income tax rates. SWEPCO would retain its normal procedural rights to participate in any such process or docket.

7. The FRP shall not preclude SWEPCO from proposing revisions to existing rate schedules or new rate schedules, such as, but not limited to experimental, developmental, and alternative rate schedules, to address competitive and other business needs.

II. SERVICE QUALITY IMPROVEMENT PLAN

8. SWEPCO shall abide by the terms of the Service Quality Improvement Program ("SQIP") approved by the LPSC on February 24, 2016 for calendar years 2016 and 2017 and is attached as Appendix B to this Settlement Term Sheet, subject to the adjustments as mutually agreed by the parties. The parties agree that the SQIP is a significant component of the FRP.

9. The agreement set forth in this Settlement Term Sheet and attached Appendices does not address or compromise matters not encompassed in this docket.

10. Except as may be expressly stated otherwise in this Settlement Term Sheet and attached Appendices, this settlement agreement is without prejudice and will not be considered precedential or binding on either party or the Commission with respect to any issues that may be raised in any other existing or subsequent proceedings, and the settlement of the rate of return issue shall not be considered precedential for any other proceeding.

WHEREFORE, this Settlement Agreement, as set forth in this Settlement Term Sheet and attached Appendices, is executed by the Louisiana Public Service Commission Staff and Southwestern Electric Power Company, this 7th day of April 2017.

By Staff Counsel for the
Louisiana Public Service Commission

By Counsel for
Southwestern Electric Power Company

APPENDIX A
LPSC Docket No. U-32220

SOUTHWESTERN ELECTRIC POWER COMPANY

FRP TEST YEAR RATEMAKING ADJUSTMENTS

The actual (per book) data for each test year shall be adjusted to reflect the following specific ratemaking adjustments to rate base, operating income, and rate of return:

Ratemaking Adjustments – Rate Base

The following rate base adjustments shall be made for each test year to the extent they remain applicable:

1. Use the average of the beginning and end of test year balances for EPIS, accumulated depreciation, and ADIT rate base components, except for new CWIP project additions to EPIS over $10 million on a total company basis, such as a new transmission line or power plant, in which case use end of test year amount for these additions. Provide consistent treatment for EPIS, depreciation reserve and ADIT. For the 2015 test year, the ERCP will be included at their June 30, 2017 balances.

2. Use 13 month average for materials and supplies, and customer deposits rate base components.

3. Exclude all SFAS 143 ARO amounts including those in EPIS and accumulated depreciation, if any, and instead, continue to include salvage and cost of removal in depreciation rates and expense and accumulated depreciation.

4. Restate accumulated depreciation (and related depreciation ADIT) using existing Louisiana depreciation rates except that the useful life of the Turk Plant shall be 50 years for depreciation expense purposes.

5. Use 13 month average for fuel inventories.

6. Remove specifically identifiable non-Louisiana jurisdiction deferred debits and credits, such as deferred fuel, and Texas regulatory assets and liabilities.

7. Include AFUDC adjustment to EPIS, accumulated depreciation and ADIT computed on a consistent basis.

8. Compute cash working capital in same manner as filed for 2005 test year, except that it shall exclude all non-cash expense items. Non-cash items include, but are not limited to, deferred income tax expense, deferred fuel expense, depreciation and amortization expense and return on common equity. Lead and lag days shall be updated to the latest study filed by SWEPCO before a regulatory commission and subject to review by the LPSC Staff.

9. Exclude prepayments due to interest, insurance and factoring from cash working capital using Staff methodology as in the original FRP approved by the LPSC on August 21, 2008 in Docket No. U-23327, Subdocket A.

10. Include 50 percent of non-AFUDC-bearing CWIP in rate base. Exclude 50% percent of non-AFUDC-bearing CWIP and all AFUDC-bearing CWIP from rate base. Compute non-AFUDC-bearing CWIP using a 13 month average for the test year.

11. Exclude ADIT amounts using Staff methodology as in the original FRP approved by the LPSC on August 21, 2008.

12. Eliminate rate base effects (costs or revenues) associated with any riders other than this Rider FRP, or other rate mechanisms, that SWEPCO may have in effect during the test year that recover specific costs.

13. AFUDC for ratemaking and accounting will reflect the FERC-required methodology and the LPSC-approved return on common equity.

Ratemaking Adjustments – Operating Income

The following operating income ratemaking adjustments shall be made for each test year to the extent they remain applicable:

1. The FRP Rate Adjustments in effect at the end of the test year under this Rider FRP shall be annualized for each test year using test year billing data.

2. The revenue and expense effects associated with any riders other than this Rider FRP, or other rate mechanisms, that SWEPCO may have in effect during the test year that recover specific costs are to be eliminated.

3. Include other revenues using methodology as agreed on in Staff and SWEPCO testimony in Docket No. U-23327, Subdocket A and as reflected in the original FRP approved by the LPSC on August 21, 2008.

4. Do not annualize or normalize revenues or expenses, except for FRP rate changes, depreciation expense changes resulting from approved changes in depreciation rates, and depreciation expense related to discrete new CWIP project additions included in Rate Base Adjustment No. 1 and depreciation expense related to discrete EPIS retirements in excess of $10 million on a total Company basis that occurred during the test year.

5. Do not include post-test year adjustments except for statutory income tax changes, the adjustments in paragraph 19 below or as otherwise prescribed in this Term Sheet.

6. Annualize FRP rate change adjustment by including the annual impact of the increase or decrease received in the test year.

7. Exclude all SFAS 143 related expense entries due to the inclusion of salvage and cost of removal in depreciation rates and expense.

8. Reclassify receivables factoring expense from interest expense to operating expense.

9. Reclassify customer deposit interest expense to operating expense.

10. Include incentive compensation expense equal to 100% target payout level (regardless of whether such costs are incurred at SWEPCO or charged to SWEPCO by an affiliate, such as AEP Service Corporation). If the 100% target payout level includes a component tied to AEP financial performance, exclude 50% of the amount tied to AEP financial performance. This provision shall not be interpreted such that the AEP corporate multiplier eliminates incentive compensation.

11. Exclude 50 percent of long-term incentive compensation plan expense at 100% target payout level (regardless of whether such costs are incurred at SWEPCO or charged to SWEPCO by an affiliate, such as AEP Service Corporation).

12. Include credit line fees in operating expenses that are not included in cost of debt.

13. Specifically assign jurisdictional other taxes in same manner as SWEPCO filed its revenue requirement as in the original FRP.

14. Exclude other costs not recognized for ratemaking, including, but not limited to, charitable contributions, lobbying expenses, fines and penalties, and disallowances.

15. Exclude difference between SFAS 106 expense versus pay as you go (regardless of whether such costs are incurred at SWEPCO or charged to SWEPCO by an affiliate, such as AEP Service Corporation) pursuant to the Commission's Order No. U-20181 dated May 17, 1993.

16. Reduce income tax expense for §199 deduction using SWEPCO's amount that is consistent with the AEP consolidated tax return for the test year filed in the year following the test year. SWEPCO will provide the appropriate amount during the review period.

17. Synchronize interest expense used for income tax expense by eliminating all actual interest expense and replacing it with an imputed interest expense equal to the test year rate base multiplied by the weighted embedded cost of short term and long term debt included in the overall rate of return for the test year.

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18. Adjust federal and state income expense, deferred tax expense, and ADIT for the following:

    a. Effects associated with other adjustments set out in this Appendix A shall similarly and consistently be adjusted;

    b. All effects associated with the difference in the timing of transactions, where the underlying timing difference is eliminated, shall also be eliminated;

    c. The corporate state and federal income tax laws legally in effect on the date the annual FRP report is filed shall be reflected in the calculation of all income tax amounts; and any changes in the statutory federal income tax rate will be treated as a direct flowthrough item in the year the new tax rate is effective as long as the flowthrough complies with normalization rules.

    d. Tax effects normally excluded in prior Commission Orders regarding SWEPCO for ratemaking purposes shall be eliminated.

19. Include the ERCP related operating income accounts, including but not limited to projected operating and maintenance expenses, depreciation, and property taxes associated with the E RCP for the initial rate period until actual data is available. The projections are subject to Staff review with the intent for ratemaking purposes of reflecting in rates a normalized, ongoing level of O&M expense.

20. The Company shall be allowed to recover through this Rider FRP, but outside the FRP sharing mechanism, the LPSC retail purchased capacity costs incurred pursuant to a new purchased power agreement ("PPA"), approved by the Commission and effective prior to the first billing cycle for the rate change month as prescribed above of the applicable filing year. The costs to be included shall be net of the reduction in capacity costs incurred pursuant to existing PPAs that will expire prior to the first billing cycle for the month of August of the filing year, and any other directly related offsets, and then only to the extent that such net costs exceed the amount of net purchased capacity costs included in the test year.

21. Include the LPSC jurisdictional 2015 and 2017 test year level of the net charges from the Southwest Power Pool pursuant to Attachment Z2 of the SPP Open Access Transmission Tariff, net of any applicable credits provided to SWEPCO under the Z2 tariff.

Ratemaking Adjustments – Rate of Return

All capital components shall reflect the average of beginning year and year end balances for the test year, except a 13 month average shall be used for Short-Term Debt. In addition, all capital components and related costs shall reflect the following principles:

1. All Long-Term Debt issues shall reflect the balance net of a) unamortized debt discount, premium, and issuance expense and b) gains or losses on reacquired debt.

2. All Preferred Stock issues shall reflect the balance net of discount, premium and capital stock expense.

3. Short-Term Debt shall be included to the extent that short-term debt exceeds the corresponding 13 months CWIP balance in the calculation of AFUDC per the formula prescribed by the FERC. Short-Term debt may not be less than zero.

4. The cost rates to be applied for Short-Term Debt, Long-Term Debt, and Preferred Equity shall be the annualized cost rates at the end of the test year and shall include current maturities. The Long-Term Debt cost rates shall include the a) annualized amortization of debt discount premium and expenses; and b) annualized gain or loss on reacquired debt. The cost rate to be applied for Common Equity shall be the authorized Rate of Return on Common Equity.

Reclassifications

1. Revenues associated with SWEPCO's rates in the LPSC Retail, APSC, PUCT Retail, or FERC (Sales for Resale) jurisdictions, but included in Other Electric Revenue on a per book basis, shall be reclassified consistent with principles underlying the 2005 test year filing to the appropriate jurisdictional rate schedule revenue category.

Other

In addition to the preceding specific adjustments, there may from time to time be special cost or rate effects that occur during a test year that require adjustment of the test year cost data. Nothing in this Rider FRP shall preclude any Party from proposing such adjustments.

APPENDIX B

SOUTHWESTERN ELECTRIC POWER COMPANY
LOUISIANA
SERVICE QUALITY IMPROVEMENT PROGRAM

Order No. U-32220-A (attached)

Attachment A

SERVICE QUALITY IMPROVEMENT PROGRAM

SWEPCO confirms that maintenance of its electric system and improvement of the quality and reliability of service provided to its Louisiana customers remains a priority. SWEPCO commits that it shall continue to undertake reasonable efforts to maintain or improve the quality and reliability of service. SWEPCO also merged with and acquired Valley Electric Membership Corporation (Valley) in 2010 and this Order will now also encompass this territory known as the Valley District and includes the former Valley employees.

In keeping with this commitment, SWEPCO agrees to adopt this Service Quality Improvement Program ("SQIP"). In order to assure the Louisiana Public Service Commission ("Commission") and Louisiana ratepayers of continued excellent service quality, SWEPCO commits and agrees to the following:[1]

I. For a period of 2 years, ending December 31, 2017, there shall be no reduction in the number of field personnel. Field personnel shall be defined as follows:

a. Linemen/Network Linemen;

b. Troublemen;

c. Manager/Supervisors;

d. Engineering Personnel;

e. Forestry;

f. Customer Service Reps;

1 Unless otherwise indicated, levels of employees, services provided, physical locations and expenditures all refer to Louisiana jurisdictional operations.

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Attachment A

g. Meter Operation Personnel;

h. Field Revenue Specialist:

i. Station Personnel;

j. Customer Solution Center

All SWEPCO Louisiana employees, including Louisiana generation personnel, will be accounted for in Exhibit A, "SWEPCO Louisiana Employee Reconciliation," which will be attached to the annual filing.

To the extent that the Company outsources or automates a particular function (*e.g.*, meter reading) it shall notify the Commission at least 90 days in advance of the proposed change. Such notification shall include the proposed date of the change, the reasons for the change, the expected cost savings from such a change, the relocation of the impacted employees and the anticipated impact on the quality of service provided. If SWEPCO outsources a function on an emergency or temporary (less than 60 days) basis, then the Company shall make an informational filing describing the service that was outsourced, the reasons for the outsourcing, and the cost of the outsourcing.

II. The number of linemen/network linemen shall be maintained at a minimum of 119 positions for the duration of the SQIP.

III. SWEPCO agrees to maintain in place an Apprentice Program to train linemen and to ensure that an adequate number of linemen and line servicers are staffed to adequately serve the needs of Louisiana customers. The Apprentice Program shall be reasonably monitored so as to maintain the minimum number of linemen as set forth in II above.

IV. SWEPCO agrees to continue to maintain and support an overall reliability program designed

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to ensure reliable service in SWEPCO Louisiana service territory. This program will include capital spending opportunities as well as targeted reliability activities, such as underground conversion where appropriate, inspections and replacements of facilities and a minimum base level of funding for vegetation management. SWEPCO agrees to commit to a base level Performance Based vegetation management program with an annual minimum spending level of $10,000,000 through the term of the SQIP agreement, subject to modification or adjustments recommended by SWEPCO in consultation with the LPSC Staff and approved by the Commission. In addition to the base level, and recognizing the acquisition of Valley, SWEPCO agrees to spend up to an additional $8 million, over and above the base level for vegetation management during the term of the revised SQIP, in accordance with the February 2016 Settlement Term Sheet. The vegetation costs to comply with the Service Quality Improvement Program shall be included in SWEPCO's cost of service and with the Valley District-related incremental spend to be recoverable through the fuel adjustment clause, subject to any prospective changes by the Commission.

SWEPCO has indicated that a Performance Based approach is more efficient and allows SWEPCO to address the circuits in most need of vegetation management rather than the traditional cycle trimming approach. SWEPCO will engage in a well-planned vegetation management program which contains specific work plans for the upcoming years that will address, among other things:

- Location of treatment and reasons for selection of locations;
- Type of treatment (mechanical, manual, herbicide) which shall be chosen based upon vegetation and environmental conditions;

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- Prioritization and specific scheduling by line/circuit;
- Cost of treatment.

SWEPCO's Forestry staff and contractors will work continuously to ensure that the appropriate vegetation management is being utilized so as to maximize effectiveness and efficiency while maintaining reliability. Tree-related data, including SAIFI indices, customer outage minutes, and customer quality of service complaints will be considered in preparing the vegetation management plans, on an ongoing basis. SWEPCO also agrees to report to Staff, on an annual basis, with its proposed tree vegetation and management plan.

V. SWEPCO agrees to continue to strive to abide by all of the provisions of the Commission's General Orders and Rules related to maintaining and improving the quality and reliability of electric service to their Louisiana customers. SWEPCO remains committed to maintaining and where necessary, improving the quality and reliability of electric service to its Louisiana customers. In that regard, SWEPCO commits to devote reasonable efforts to ensuring that its 2016-2017 SAIDI and SAIFI values for its Louisiana operations shall be maintained or improved over time (subject to the *force majeure* provisions contained in the Commission's General Order and Regulations *In re: Ensuring Reliable Electric Service*, Docket No. U-22389 (Adopted April 30, 1998 and subject to the provisions below as to the Valley Service Territory. The parties acknowledge and agree that the SWEPCO vegetation management program was not in place at Valley, before the October 2010 acquisition and therefore, the

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reliability metrics are not applicable to the Valley District, but with SWEPCO providing reports to Staff on its progress in the Service Quality docket.

VI. SWEPCO currently utilizes a 10-year cycle for the inspection (and repair as necessary) of the entire SWEPCO/Louisiana system. SWEPCO commits to maintain and, if possible, improve the 10-year inspection program, which includes reasonable pole, cross-arm and related equipment inspection. SWEPCO will report the inspection program costs each year for the inspection, reinforcement, refurbishment and replacement of the distribution poles, transmission poles and downtown Shreveport underground network in their annual report.

VII. SWEPCO agrees that it will continue, and, if possible, improve upon SWEPCO's policies of addressing the worst 5% of distribution feeders. The company will undertake all reasonable expenditures to achieve the goal of limiting customer outages. SWEPCO will report the estimated cost to comply related to these 5% worst feeders in its annual report to the Commission for cost related to patrolling, tree trimming, pole inspection, pole hardware and animal guards.

VIII. SWEPCO agrees to maintain the SWEPCO Customer Solution Center in Shreveport, Louisiana from the date of the Order approving this SQIP through at least December 31, 2017. During this period, if SWEPCO determines that a customer solution center is no longer the most efficient means to handle communications with its customers, and SWEPCO desires to replace the current customer solution center with some other system,

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then SWEPCO must file with the Commission a detailed description of the proposed system, the reasons the proposed system is believed to be more efficient than the customer solution center, the net difference in cost of the proposed system, and the anticipated effects on SWEPCO's ability to receive, process, and address customer communications. The Commission will, within 90 days, rule on whether SWEPCO may replace the customer solution center with the new system. This provision is not intended to allow SWEPCO or American Electric Power Company ("AEP") simply to establish a new customer solution center at another location, nor eliminate the customer solution center entirely for its combined operations.

IX. SWEPCO agrees to maintain the SWEPCO Transmission and Distribution (T&D) Dispatch Center in Shreveport from the date of the Order approving this SQIP through at least December 31, 2017. During this period, if SWEPCO determines that a T & D Dispatch Center is no longer the most efficient means to handle the functions currently handled by the T & D Dispatch Center, and SWEPCO desires to replace the T & D Dispatch Center with some other system, then SWEPCO must file with the Commission a detailed description of the proposed system, the net difference in the cost of the proposed system, the reasons the proposed system is expected to be an improvement over the T & D Dispatch Center, and the anticipated effect on SWEPCO's ability to address the functions currently handled by the T & D Dispatch Center. The Commission will, within 90 days, rule on whether SWEPCO may replace the T & D Dispatch Center with the new system. This provision is not intended to allow SWEPCO or AEP simply to establish a new T & D Dispatch Center at another

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location nor eliminate the T&D Dispatch Center entirely for its combined operations.

X. SWEPCO agrees to maintain the availability of SWEPCO/Louisiana pay stations. Specifically, SWEPCO commits to maintain in place the pay station located at 416 Travis Street, Shreveport, La. from the date of the Order approving this SQIP through at least December 31, 2017. In addition, SWEPCO will continue to evaluate all reasonable alternatives to provide SWEPCO/Louisiana ratepayers with the widest range of options by which to pay their electric bills.

XI. SWEPCO agrees to maintain the current number of SWEPCO Distribution Operation Centers in Louisiana from the date of the Order approving the SQIP through at least December 31, 2017.

XII. SWEPCO also commits to continue to attempt to improve reliability and the following is a report on the status of substation and transmission projects:

a. Swan Lake Station (new construction)

b. Caplis Station (COMPLETED)

c. Brownlee Rd. Station (upgrade of substation)

d. Dogwood Station (upgrade of substation)

e. Red Point Station (COMPLETED)

f. Port Robson Station (COMPLETED)

g. Sligo Rd. Station (COMPLETED)

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h. Linton Rd. Station (COMPLETED)

i. Shreveport Downtown Network (rehab of major network serving downtown Shreveport)

j. Bodcau Station (COMPLETED)

k. Deen Point Station (COMPLETED)

l. 138 KW Transmission line Construction (COMPLETED)

As SWEPCO has completed many of the foregoing projects, no future reporting is required or necessary as to the completed projects. SWEPCO will report to Staff on the status of future projects, as well as any modifications or changes to these projects in its annual report filed on April 1st of each year and discussed in the following paragraph, or more frequently as it deems necessary, or as requested by Staff.

XIII. In addition to the reporting requirements contained in the Commission's April 30, 1998 General Order *In re: Ensuring Reliable Electric Service* (Docket No. U-22389), the company agrees to submit a comprehensive report to the Commission by April 1 of each year (the "current year"), regarding results of operations in the previous calendar year (the "prior year") containing the following information:

(1) The number of field personnel in the prior year;

(2) The projected number of field personnel for the current year;

(3) The amount spent on its vegetation management program in the prior

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approve expenditures for service and reliability needs with a threshold not less than $3,000,000 without further approval. SWEPCO and AEP commit further to maintain in Louisiana a sufficient management team to ensure that safe, reliable, and efficient electric service is provided and to respond to the needs and inquiries of Louisiana ratepayers. Specifically, SWEPCO shall maintain Louisiana management personnel in sufficient numbers to perform the functions currently performed by the personnel on the SWEPCO Louisiana Employee Reconciliation attached hereto as Exhibit "A" and identified in a SWEPCO organizational chart attached hereto as Exhibit "B", to be included in the annual filing.

Any reduction in work force below the baseline, if any, shall be identified in Exhibit A and the reason for such reduction stated. This does not preclude SWEPCO from "netting" positions upon review by the Commission Staff. "Netting" is defined as eliminating one employee position for efficiency purposes and filling a comparable position in another area of the company to meet a specific need. Upon receipt of the filing, the Commission may take all appropriate actions to ensure that proposed management changes do not adversely affect the provision, reliability, and cost of service to Louisiana ratepayers. If retail access is mandated by the Commission or through action by the Federal Energy Regulatory Commission or federal legislation, the Company must submit any proposed management changes to the Commission no less than 120 days in advance of the effective date of such changes.

XV. All prudent costs incurred to comply with the terms of this Service Quality Improvement

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Program shall be recoverable in accordance with the Commission's traditional ratemaking principles and procedures , through recognition of these costs in its revenue requirement in any future rate reviews, and including the current Formula Rate Plan (FRP) or any future FRP, except for the Valley District incremental vegetation management spend, which shall be recoverable as provided on paragraph IV above.

XVI. If retail access is mandated by the Commission, or through action by the Federal Energy Regulatory Commission or federal legislation, or if other force majeure event occur, then SWEPCO-La. shall have the right to petition the Commission for modifications to this Service Quality Improvement Program. Further, in the event of future technological developments or improvements that improve significantly the provision of service, SWEPCO may petition the Commission for modification of this Service Quality Improvement Program. Any such petition must establish the necessity of the proposed modifications and provide appropriate protections to ensure that SWEPCO-La.'s quality of service will not decline and that a sufficient number of employees, including a management team, remain in place in Louisiana. The Commission will act upon the petition in accordance with its normal rules and procedures.

	A	B	C	D	E	F	G
3	Exhibit (A)						
4							
5	**SWEPCO Consolidated Baseline Positions - 2016-2017 SQIP**						
6	**Department**	**Field**	**Base**	**SWP August**	**Valley Employees**	**Vacant**	**Total Positions**
7	**President & COO**		7	7	0		7
8	**VP External Affairl**		4	4	1		5
9	**VP Regulatory & Bus Ops**		12	10	0		10
10	**Director of Corp Comm**		2	3	0		3
11	**VP Dist Region Operations**						
12	Dist Region Support Personnel		37	41	14	1	56
13	Linemen	a)	72	61	47	11	119
14	Troubleman	b)	40	34	1	3	38
15	Mgr./Supr of Distribution System	c)	14	11	4		15
16	Engineering Personnel	d)	23	17	7		24
17	Forestry Personnel	e)	3	3	0		3
18	**Dir Customer Services & Marketing**						
19	Customer Service Support		16	14	1		15
20	Supervisors/Managers	c)	6	6	0		6
21	Customer Service Reps	f)	9	9	2		11
22	Meter Operations Personnel	g)	41	41	3		44
23	Field Revenue Specialist	h)	13	13	1		14
24	**Transmission Operations**						
25	Transmission Personnel		18	19	0		19
26	Supervisors of Transmission	c)	7	7	0		7
27	Engineers/Technologist	d)	3	8	0		8
28	Station Personnel	i)	12	13	1		14
29	**Customer Solution Center**	j)	125	123	0		123
30	**Shared Services**						
31	Meter Operation/Maintenance	g)	11	10	0		10
32	Fleet Services		12	10	2	1	13
33	Telecommunication/IT		17	13	1		14
34	Human Resources		5	6	0		6
35	Support Personnel		34	33	4		37
36	Sub-total		544	516	89	16	621
37	**Power Generation**		101	108	0		108
38	**Total**		645	624	89	16	729
39							
40	**Key to Baseline**						
41	**Consolidated Positions**						
42					**Transmission Personnel**		
43	**Linemen**				Forestry		
44	Linemen/Network Linemen Combined (66+6)				EMS/SCADA		
45	**Engineering Personnel**				Transmission		18
46	Engineer Tech/Engineers Combined (13+10)						
47							
48	**Customer Service Support:**						
49	Account Managers		4		**Customer Operation Services**		
50	Customer Operation Admin		1		Cust Sol Center		
51	Admin Associate		3		Billing		
52	EE and Consumer Programs		2		Collections		125
53	Field Communication Reps		6	16			
54					Shared Services		
55	**Meter Operations Personnel:**				Claims		
56	Meter Readers		32		Funct Analyst		
57	Meter Tech		2		Safety		
58	Meter Electricians		7	41	Bldg Mngt		
59	**Telecommunication/IT**				Material Coor		
60	IT and Telecom combined (10+7)				Auditor		
61	**Power Generation**				Workplace Svc		
62	Power Gen and Dolet Hills (96+5)				DAR		
63					Mngr Plannng		
64					Graphich		
65					Stores		
66					Support Eng		34
67							